

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Yorkshire Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Yorkshire Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess the company's assurance, and our findings.

In the context of the CMF, we are looking for evidence that companies are meeting the high standards of assurance that stakeholders expect. As well as checking that companies are providing clear, transparent and accurate data, we also look at the way companies present their information which should be accessible to customers and other stakeholders. We also look at how transparent companies are in how they explain any performance issues, company structures, and decision-making processes. We consider that all these elements contribute to the trust and confidence that customers and other stakeholders place in them.

Further information on this year's assessment is available in our [Company monitoring framework 2017 assessment](#) publication. The framework itself is available in our '[Company monitoring framework final position](#)', which we updated July 2017.

### Summary of our assessment

Considering the issues in the round, we have placed Yorkshire Water in the targeted category.

We have looked across how well the company has met or exceeded our expectations in all of our assessments, including whether they have demonstrated that they have met expectations by a clear margin, demonstrated leading edge behaviour, and whether there were any behaviours that we considered led to a reduction in trust and confidence. Taking all of this into account, while we found some evidence of behaviour that we considered leads to a reduction in trust and confidence, meaning that the company did not consistently meet the high standards that customers and other stakeholders expect, there are also examples of good practice and significant improvements as compared to last year.

Based on all of the relevant evidence, **we have decided to change Yorkshire Water's assurance status to "targeted"**.

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Companies in the prescribed category can only move up to the targeted category in one year, Yorkshire Water will be eligible for consideration as self-assurance next year.

In this document we have set out a brief summary of the assessments that we undertook as part of the CMF in 2017.

## **Results of each assessment exercise**

### **1.1 Financial monitoring framework**

#### **What we were looking for**

In this assessment we looked at how the companies had followed our financial monitoring framework guidance. Our assessment focused on the quality of financial information published in the annual performance report, the transparency of disclosures and consistency of financial metric data published.

This is an area where companies' data assurance is particularly important, and companies need to ensure that the information that they publish is in line with the guidance provided by Ofwat. This enables Ofwat, and other stakeholders, to be confident that the information that each company publishes has been prepared on a consistent basis and allows meaningful comparisons to be made between companies.

#### **What we found**

Our review identified a couple of small errors, indicated that Yorkshire Water had not followed our reporting guidance. None of those errors would have had a significant impact on the readers' view of the company performance.

- the company used an incorrect RCV figure when calculating post tax return on regulated equity
- we had to request further information in respect of their RORE disclosures

We also note that the company has complex financing arrangements in place, and they have undertaken significant work to improve the clarity of their reporting in this

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area, however there is more that we consider all companies including Yorkshire Water can do to improve the reporting for customers.

Our assessment: **minor concerns**

## 1.2 Charges engagement

### What we were looking for

We have to date issued three charging rules: Charges scheme charging rules; wholesale charging rules; and new connection services charging rules (English undertakers). The rules require companies to publish the charges they set under these rules in Charges Schemes, Charges Schedule and Charging Arrangements respectively. They must publish these documents in February each year, which is at least two clear months before they take effect.

For this assessment, we focus on how well companies have engaged with their stakeholders about their charges and charging policies through their publications and actual interactions. We based our assessment on the following:

- Board assurance statements;
- Assurance of the engagement on and publication of charges information, where appropriate under the charging rules;
- the information companies provide in their Statement of Significant Changes; and
- the handling strategies companies devise and put in place to address significant movements in charges.

### What we found

Yorkshire Water's Board Assurance Statement noted that the company had consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges, a further improvement would be to set out what the discussions were about and how the discussions had, if at all, impacted on the company's charges.

The company stated that it did not expect any of its bills to increase by more than 5%. As a further improvement, the company could have supported this statement

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with, for example, a table showing the level of bill increases for a representative set of household and non-household customers.

Our assessment: **meets expectations**

## 1.3 Outcomes

### What we were looking for

In this assessment we looked for:

- reliable, timely and appropriate information for customers and other stakeholders;
- transparent and accessible information for customers and other stakeholders;
- appropriate data assurance;
- evidence that the company has listened and responded to its customers and other stakeholders; and
- compliance with the outcome delivery and reporting proposals as set out in the PR14 final determination company-specific appendix.

This is an important assessment, to ensure that stakeholders can understand what companies are doing to deliver the outcomes that customers expect.

### What we found

#### Reliable, timely and appropriate information

Overall Yorkshire Water has provided accurate, reliable information in tables 3A (outcome performance), 3B (sub-measures) and 3D (service incentive mechanism).

The company is not reporting any AIM sites and table 3C (Abstraction Incentive Mechanism (AIM)) was a 'nil return'. Although the company has been transparent about how it has reviewed its AIM sites, we expect it to keep the situation under review and engage with us, as well as other stakeholders, on any changes to its AIM sites.

#### Transparent and accessible information

There is comprehensive evidence that the company's reporting is transparent and accessible to customers and other stakeholders. It is clear that the company has

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carefully considered the feedback in relation to transparency and accessibility that we gave in our 2016 company monitoring framework (CMF) assessment.

Yorkshire Water has published performance information on the [Our Performance – How we're doing](#) page of its website; this is accessed using the 'About us' and then 'See how we are performing' links from the homepage. The performance information in the 'Delivering our commitments - our Annual Performance Report 2016/17' is relevant, easy to understand and well sign-posted. The performance summary 'Hitting our targets – our performance in 2016/17' is clear evidence that the company has carefully considered how to communicate its performance information to customers. This is a considerable improvement on the more regulator-focused style of the 2015/16 annual performance report. For a short period after initial publication the Annual Performance Report was not available on the website, but this was soon rectified.

### **Data assurance**

There is clear evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. For example, a Technical Assurance Report, including the outcome of the data assurance, can be found in the Annual Performance Report 2016/17. In addition, the company's technical assurance provider, Halcrow, attended a Customer Forum meeting to present their views on the company's performance. These both provide customers and other stakeholders with additional assurance that the company's performance, methodologies, assumptions and data has been tested.

In its report, Halcrow notes two areas where it has minor concerns with the reported data or the supporting documentation. This includes a concern that the inclusion of clean water sludges in the 'waste diverted from landfill' performance commitment may not be consistent with the way the AMP6 performance commitment was intended. Going forward, if the methodology for this performance commitment has changed we expect the company to follow the process set out in [Information Notice 16/07: Changes to outcomes in the 2014 price review company-specific appendices](#), published May 2016. This is to make sure that all the publicly available information on company performance is reported consistently with the PR14 commitments.

### **Wider assurance**

There is sufficient evidence that the company has provided the wider assurance to demonstrate it is listening to customers and delivering the services they want and can afford. In particular, the publication within the Annual Performance Report 2016-17 of a statement from the Yorkshire Forum for Water Customers provides customers and stakeholders with assurance that the information on performance

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commitments has been independently challenged and reviewed by customer representatives.

### **PR14 final determination company-specific appendix**

There is sufficient evidence that the company has implemented its proposals for outcome delivery and reporting as set out in the PR14 final determination company-specific appendix.

Our assessment: **meets expectations**

## **1.4 Compliance with principles of board leadership, transparency and governance**

### **What we were looking for**

In this assessment we looked for how the information which the company provided demonstrated that it has met our board leadership transparency and governance principles. This included the provision of:

- transparent governance information, including group structure and on director remuneration;
- evidence that the board of the regulated company has full control over the company, including its long-term strategy, and is fully focused on its obligations; and
- clear information on the composition of the board and its sub-committees.

This is an important assessment, designed to give stakeholders trust and confidence that the company is structured appropriately and transparently, and complies with its legal obligations.

### **What we found**

The information provided as part of the company's annual reporting has very clearly demonstrated how it is meeting our board leadership transparency and governance principles.

The company has provided a particularly accessible governance section in its report and the information provided on directors' remuneration was very clear and comprehensive. It has also provided an exceptional level of clarity in setting out its

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group structure and describing the function of the different companies within the group.

The level of detail provided and its accessibility will help increase the confidence which stakeholders have in the board leadership and governance of the company.

Our assessment: **exceeds expectations**

## 1.5 Risk & compliance statement

### What we were looking for

In this assessment we looked for a statement, explicitly endorsed by the company's board, which confirms that the company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces.

This assessment is designed to give stakeholders trust and confidence in companies' approach to compliance and risk management. The statement is intended to facilitate a company-led approach to compliance.<sup>1</sup>

### What we found

The board has provided a clear statement confirming that the company has an understanding of, and is meeting, its obligations. It has also confirmed that the company has sufficient processes and internal systems of control to meet those obligations and has systems and processes in place to identify, manage and review its risks.

The sign off of the statement demonstrates clear endorsement from the entire board.

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<sup>1</sup> Our findings here, and throughout our CMF assessment, are without prejudice to any issues that we may investigate under our enforcement powers and subsequently find wanting. It would be inappropriate to pre-empt the outcome of any investigations that might consider whether the assurance provided is indeed appropriate or accurate. Any adverse findings in this respect may be taken into account in future assessments.

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Our assessment: **meets expectations**

## 1.6 Assurance plan

### What we were looking for

In this assessment we looked for the following in companies' assurance plans.

- Explanation of the framework and their approach to it.
- Evidence of stakeholder engagement undertaken to develop the plan.
- Clear scope, and rationale for targeting specific areas.
- Appropriate language and accessibility for all stakeholders.

This is a key test of whether companies are listening to their stakeholders and using their views to improve their practices.

### What we found

The company's assurance plan has been substantially updated since last year. The presentation and language used is much less technical and more accessible. Reflecting the move into the prescribed category, the company has classified nearly all areas as high risk with corresponding assurance activity. A lot of detail has been provided on the planned assurance for all targeted areas. The document clearly sets out what changes they have made in response to feedback. It provides a good background to their process and assurance framework and sets out work done to date. There is evidence of good engagement with stakeholders and of responding to and addressing comments. The plan clearly sets out in detail the assurance activities done to date and the work that is still to be completed.

Although quite long, because the assurance plan is structured in layers (providing increasing levels of detail) it allows readers to choose how much of the plan they wish to read. At all levels the plan is comprehensive.

Our assessment: **exceeds expectations**

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## 1.7 Data assurance summary

### What we were looking for

We checked that companies have:

- published a data assurance summary for 2016-17 activities;
- covered the targeted areas from the company's assurance plan; and
- provided an overview of the company's assurance methods and processes, the audit exercises carried out and their findings.

This assessment is designed to ensure that companies provide accessible assurance to stakeholders, to build trust and confidence in their data publications.

### What we found

The company has overhauled the format and increased the content from the brief summary it published last year. It is well-written using a mix of narrative and diagrams to provide a succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent outcome of assurance table.

The data assurance summary takes the reader through the company's assurance process and links to previous documents published. There is good coverage of all areas targeted in the assurance plan with a table clearly setting out all the assurance activities performed for each targeted area and detail on the findings and also differentiates the sections of the annual performance report. The scope of the summary is much wider than the annual performance report and covers retail competition and activities related to the forthcoming price review. It also considers how accessible information is to stakeholders and whether the published materials meet customers' needs.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website.

Our assessment: **exceeds expectations**

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## 1.8 Casework

### What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2016 onwards. We considered the company's response to our requests for information. We checked that companies had provided complete, accurate information within our timescales, and engaged effectively with us.

This assessment focused on our trust and confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.

### What we found

We closed two cases concerning Yorkshire Water during the assessment period. One of these cases was included in the previous year's CMF assessment and no additional information was requested from the company during this assessment period. The second case was closed in September 2017 but we did not request any information from Yorkshire Water during the case which required assessment. As such, no assessment was made.

Our assessment: **not applicable**

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## **1.9 Wider assurance and information**

### **What we were looking for**

This assessment considers any information - across a range of publications, regulatory submissions and bilateral engagement - that impacted on trust and confidence in the information produced and that we therefore considered relevant to our overall decision for each company. In carrying out this assessment, we consider the context in which any relevant information was published or shared.

### **What we found**

We found no issues that we considered relevant to our assessment of the company in relation to wider assurance and information this year.

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